

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

OCTOBER 19, 2009

MINUTES

**DIRECTORS
PRESENT:**

Tracy Towner, Chair, Safety Employee Member
William W. Wilson, Vice Chair, Public Member
Lawrence L. Matheney, Treasurer, Ex-officio Member
Peter C. Foy, Public Member
Albert G. Harris, Public Member
Joseph Henderson, Public Member
Karen Becker, General Employee Member
Robert Hansen, General Employee Member
Arthur E. Goulet, Retiree Member
Will Hoag, Alternate Retiree Member
Chris Johnston, Alternate Employee Member

**DIRECTORS
ABSENT:**

None.

**STAFF
PRESENT:**

Tim Thonis, Retirement Administrator
Henry Solis, Fiscal Manager
Lori Nemiroff, Assistant County Counsel

PLACE:

Ventura County Employees' Retirement Association
Second Floor Boardroom
1190 South Victoria Avenue
Ventura, CA 93003

TIME:

9:00 a.m.

ITEM:

I. **INTRODUCTION OF MEETING**

Chairman Towner called the Business Meeting of October 19, 2009 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

Mr. Goulet moved, seconded by Mr. Harris, to approve the agenda.

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of October 5, 2009.

Ms. Becker moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of October 5, 2009.

Motion passed. Mr. Goulet abstained.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of September 2009.

B. Statement of Plan Net Assets, Statement of Changes in Plan Net Assets and Summary of Investments and Cash Equivalents for the Months Ended July 31 and August 31, 2009.

C. Report of Checks Disbursed in September 2009.

D. Preliminary Budget Summary for the Month Ended August 31, 2009, Fiscal-Year 2009-10.

E. Quarterly Real Estate Reports for Period Ending September 30, 2009.

1. Guggenheim

2. Prudential

Ms. Becker moved, seconded by Mr. Harris, to approve the Consent Agenda.

Motion passed.

Staff commented that the quarterly real estate reports from RREEF and UBS were received after the meeting agenda packets had been prepared and noted quarterly performance was -14% for RREEF and -4.7% for UBS. Staff also noted

IV. CONSENT AGENDA (continued)

that Prudential's performance was down 30% year-to-date. Staff indicated that they would be participating in a conference call and attending a meeting in San Francisco regarding the performance of PRISA.

Mr. Hansen arrived.

V. INVESTMENT INFORMATION

A. Barclays Global Investors Annual Investment Presentation, Lee Wanie, CFA.

Lee Wanie was present from Barclays Global Investors (BGI) to discuss investment performance, BlackRock's acquisition of BGI and to provide current perspective on the capital markets.

Mr. Wanie noted that VCERA had been a client of BGI since 1987 and performance could be best summarized as "performance as planned" given that VCERA invested in BGI's index products. Mr. Wanie further noted that in most instances VCERA's investment performance either matched or exceeded the benchmark for the respective indices. For example, since inception, the US Equity Market Fund has outperformed the benchmark by 7 basis points (.07%), the Extended Equity Market Fund trailed by 4 basis points (.04%), the ACWI ex-US IMI Fund outperformed by 13 basis points (.13%) and the US Debt Index Fund outperformed by 9 basis points (.09%). Based upon VCERA's \$1.2 billion commitment to BGI, the outperformance described above generated additional returns that exceeded the management fees charged to VCERA, according to Mr. Wanie.

In response to a question from Mr. Vandolder regarding losses in BGI's securities lending pools, Mr. Wanie stated that there have been no client losses and the underlying pools were of high credit quality. Mr. Wanie further described that investments of shorter maturities were being added to the pools and counterparty risks were being fully analyzed by BGI staff.

Mr. Wanie described the initial phases of BlackRock's acquisition as being a tense time within the organization; however, BlackRock soon became the "suitor of choice". Mr. Wanie noted that there was not a high degree of overlap in terms of investment products and clients between BGI and BlackRock. The \$2.7 trillion acquisition is expected to close on December 1, 2009, and should result in lower management fees and lower transaction costs for clients, according to Mr. Wanie.

V. INVESTMENT INFORMATION (continued)

A. Barclays Global Investors Annual Investment Presentation. (continued)

Mr. Wilson questioned and received clarification that going forward BGI will be known as BlackRock.

In terms of the current market, Mr. Wanie stated that BGI was seeing an increased appetite for risk coming back in the market as investors redeployed capital. Mr. Wanie opined that it was a great time for active investment managers to succeed, but also noted that liquidity was still relatively tight with the potential for an increase in the inflation rate looming on the horizon.

In terms of investment trends, Mr. Wanie noted that investors were seeking more global opportunities, increasing allocations to index products and were studying more liability driven investment strategies.

B. Western Asset Management Annual Investment Presentation, Joseph C. Carieri and Dennis J. McNamara, CFA.

Joseph C. Carieri and Dennis J. McNamara were present from Western Asset Management (Western) to discuss the organization, performance and market outlook.

Mr. Carieri began the presentation by publically thanking the Board for its patience during this most difficult market period. Mr. Carieri noted the improvement of performance in both VCERA portfolios and discussed the recent addition of Andrew Belshaw to lead Western's London office. As of the end of September, Western's assets under management firm-wide were estimated at \$508 billion.

Mr. McNamara reviewed the volatility in the aggregate index excess returns for the period 1989-2009 and noted the extreme volatility that has occurred over the last three years. Mr. McNamara noted that 2008 was the worst performing year in every sector of the fixed income market in history.

Going forward, Mr. McNamara believed there will be a positive growth pattern in the economy. Western projected that the business sector will be the greatest contributor to economic growth and Western's projections do not rely upon an increase in consumer spending. Western believes that the economy has formed a meaningful bottom and is now positioned to grow albeit slowly.

V. INVESTMENT INFORMATION (continued)

B. Western Asset Management Annual Investment Presentation. (continued)

In terms of the capital markets, Mr. McNamara noted that challenges remained; however, the Federal Reserve's (Fed) policies were making a difference. For example, the Fed policy changes have resulted in lower mortgages and in the build-up of excess bank reserves. Mr. McNamara opined that the Fed policies would not result in inflation in the near term. Western believed that the Federal Reserve's actions replaced the economic losses incurred in the fourth quarter of 2008.

In response to a question from Mr. Vandolder regarding whether Western was limiting the risk in their portfolios, Mr. McNamara responded that Western had reduced certain high-yield exposures and was also incorporating higher quality securities in the bank loan segment of the portfolio.

Mr. Vandolder requested further clarification on Western's non-agency mortgage backed holdings.

Mr. McNamara responded that Western had not added to their non-agency mortgage backed positions, and noted that certain positives within the sector included improved fundamentals in the housing sector along with improved liquidity provided by the PPIP program. Yields on mortgage backed securities were expected to be in the 8-10% range over the next couple of years.

Mr. Johnston questioned whether the housing market was actually improving given that many areas are not included in the metrics that measure changes in the housing industry.

Mr. McNamara concurred that the fundamentals within the housing market are poor and Western continued to stress-test their valuations with an additional 10-20% expected downturn in price. Paradoxically, housing defaults increase the value of Western's holdings given their senior positions in the debt structure. Overall, Mr. McNamara believed the housing fundamentals are improving. For example, housing starts are positive and other fundamentals appear to have bottomed, but concerns remained within the industry due to high unemployment levels.

In response to a question from Mr. Towner, Mr. Carieri noted the significant negative impact that non-agency mortgage backed securities had on the returns for the Index Plus portfolio.

V. INVESTMENT INFORMATION (continued)

B. Western Asset Management Annual Investment Presentation. (continued)

Mr. Vandolder questioned the probability for Western achieving excess returns going forward in the Index Plus portfolio. Mr. Carieri opined that there were still tremendous opportunities given that most of the portfolio's holdings were not included in the benchmark.

In response to a question from Mr. Foy regarding the limited number of current eligible buyers in the housing market, Mr. McNamara opined that the recovery within the housing market required a recovery in the economy. Mr. McNamara further noted the distinction between the demand for housing and the demand for home ownership.

Mr. Hansen noted the excess capacity of office space in both Los Angeles and Orange Counties.

Mr. Towner requested an explanation on the tracking error between the returns in the Index Plus portfolio and the underlying benchmark. Mr. McNamara responded that the underlying portfolio failed miserably in its attempt to track cash returns.

Mr. Harris requested statistics on the number of foreclosures being returned to banks as REOs (Real Estate Owned Properties). Mr. Vandolder offered to address the subject at a future Board meeting through a memorandum.

Mr. Goulet left the meeting.

C. EnnisKnupp & Associates, Kevin Vandolder, CFA, and Eric Denny.

1. Monthly Investment Performance Update, September 2009.

2. Monthly Manager Updates/Summary, September 2009.

- a. Sprucegrove
- b. Capital Guardian
- c. Artio
- d. GMO
- e. Acadian
- f. Western
- g. Reams
- h. Loomis Sayles

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Mr. Vandolder noted the increase in VCERA's assets to approximately \$2.7 billion as of September 30, 2009, and described the current rally in the markets as one based upon sentiment. Mr. Vandolder further noted that several investment professionals were seeing a fantastic "earnings season" in the coming quarter based upon improved cost structures in corporate America, but were concerned that revenues were not increasing.

Mr. Vandolder stated that VCERA's domestic equity portfolio exceeded its performance benchmark in September and for the first nine months of the year. The Western Index Plus portfolio was the primary contributor to the outperformance, but still trailed its benchmark by 10% since inception. The international equity portfolio exceeded its performance benchmark by 20 basis points (.20%) in September, but has trailed the benchmark by 3.2% since January 1, 2009. The global equity portfolio continued to face performance challenges in September. VCERA's fixed income portfolio continued to add value as Reams Asset Management, Loomis Sayles and Western Asset Management outperformed their respective benchmarks in September, according to Mr. Vandolder.

3. Private Equity Search Report.

Mr. Denny stated the goal of the private equity manager search was to select two managers to make presentations at the Board's December business meeting. Mr. Denny noted the three firms presented in the EnnisKnupp search book were Adams Street, Pantheon and Pathway. Mr. Denny stated that EnnisKnupp rated all three managers highly and all invested private equity capital on behalf of EnnisKnupp clients.

Mr. Denny noted that Adams Street was a Chicago firm established in 1972 and has offered fund of funds mandates since 1979. The management team is very experienced and has maintained long standing relationships with other private equity general partners. The strategies offered by Adams Street include primary offerings, secondary offerings and direct investments. Mr. Denny reviewed a history of fund offerings from Adams Street that contained net internal rates of return numbers as well as quartile rankings produced by Venture Economics, a company that measures private equity manager performance.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Mr. Denny described Pantheon as a global private equity fund of funds manager headquartered in San Francisco. One of Pantheon's particular strengths is a dedicated solution in the secondary market. Pathway's fund of funds strategy was described as being more concentrated than those offered by Adams Street and Pantheon.

Mr. Vandolder stated that EnnisKnupp had experienced administrative challenges in terms of receiving return data from Pathway. Additionally, EnnisKnupp was concerned with the potential turnover of senior investment professionals at Pathway.

Mr. Denny recommended VCERA fund two managers with \$25 million apiece as part of the initial 5% allocation split equally between a core vehicle and a secondary vehicle. Mr. Denny further recommended VCERA hire a third manager in approximately 12-18 months and further consider direct investment in private equity in order to lower management fees.

Mr. Wilson expressed concern regarding the timeline for additional hirings in the asset class given the inherent performance lag associated with private equity investing.

Mr. Matheny expressed concerns with investing in the asset class, but was interested in considering secondary market investments, especially with Pantheon.

Mr. Wilson moved, seconded by Mr. Matheny, to invite Pantheon and Adams Street to make presentations at the Board's meeting on December 21, 2009.

Motion passed.

4. Currency Manager Search Update.

Mr. Vandolder noted the Board's previous review of three currency managers earlier this year, BGI, First Quadrant and State Street Associates. Mr. Vandolder further noted that the managers did not distinguish themselves and EnnisKnupp recommended the Board consider

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

a new platform with K2 Advisors. According to Mr. Vandolder, K2 Advisors is the most compelling currency manager currently offering fund of funds vehicles and suggested the Board invite K2 Advisors to make a presentation in early 2010.

K2's strengths were, according to Mr. Vandolder, to preserve and grow capital by producing returns with low market correlation, reduce volatility and limited risk. The strategy's objective was to produce a 3-4% return over cash (net of all fees) with low market correlation and a 5-8% targeted volatility level. Mr. Vandolder further noted the higher management fee associated with the fund of funds strategy.

Mr. Johnston questioned the impact on currency returns if the US dollar was no longer used as the world's reserve currency. Mr. Vandolder responded that there would be greater market inefficiencies and thus greater return opportunities.

Mr. Wilson moved, seconded by Mr. Matheney, to invite K2 Advisors to present to the Board in the first part of 2010.

Motion passed.

5. Memorandum - Revised Universal Asset Allocation.

Mr. Vandolder reviewed the Universal Asset Allocation (UAA) memorandum describing that the overall risk of VCERA's portfolio could be lowered by changing the fixed income allocation from a core plus type mandate to one that invested solely in US Treasuries. Mr. Vandolder looked forward to continuing this dialogue with the Board and noted that for every dollar invested in a private equity mandate, an additional dollar could be invested in a UAA fixed income strategy.

Mr. Matheney questioned how an increase in inflation would affect this type of strategy. Mr. Vandolder responded that in the median case inflation risks would be mitigated through investment in TIPS (Treasury Inflation Protected Securities) and through valuation expansion in long-only equity mandates.

Mr. Vandolder, in response to a question from Mr. Matheney, recommended a policy discussion be held on the impact of inflation in 2010.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

6. Memorandum - RREEF America III Investor Forum.

Mr. Vandolder reviewed the RREEF America III memorandum noting the disappointment in the lack of Board of Director participation in the shareholder meeting on October 1, 2009. Mr. Vandolder provided information on RREEF Management's successful renegotiation of the fund's secured debt, but expressed concern regarding the potential for a balloon payment in 2012.

At the request of the Board, staff reviewed its memorandum (New Business, Section VII., Item C.) that recommended VCERA continue to monitor the fund's liquidity and to consider divestment at the earliest possible date.

7. Memorandum - Acadian, GMO and Loomis Meeting Notes.

Mr. Vandolder reviewed EnnisKnupp's meetings with Acadian Asset Management, GMO and Loomis Sayles. Mr. Vandolder noted that the discussion with Acadian focused on changes in their quantitative models that had poorly tracked the more recent market events. Mr. Vandolder recommended that VCERA continue to closely monitor Acadian Asset Management.

In terms of GMO, Mr. Vandolder discussed Mr. Hansen's, Mr. Goulet's and EnnisKnupp's one hour meeting with Jeremy Grantham. Further, Mr. Vandolder commented positively on the hiring of a new CEO, Marc Meyer, which will allow Mr. Grantham to spend more time on investment matters rather than administrative ones.

The Loomis Sayles meeting was highlighted by a discussion with Matthew Eagan that focused on how Loomis Sayles was adding to its dollar block investments in New Zealand and Canada, while "de-risking" the portfolio through the reduction of high yield positions.

8. Paper by Richard Ennis – "Parsimonious Asset Allocation".

Mr. Vandolder described the paper as a review of the "Whole Stock Portfolio" concept with the last page of the paper describing the simplification of asset allocation policies as recommended by Mr. Ennis.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

9. Article by Richard Ennis – “Big Bond Bust”.

Mr. Vandolder reviewed Mr. Ennis' paper that described how institutional investors' fixed income portfolios failed to provide downside protection during the difficult economic environment of 2008.

Mr. Wilson moved, seconded by Mr. Matheney, to receive and file items 1, 2, and 5-9 and item VII.C.

Motion passed.

VI. OLD BUSINESS

A. SACRS Fall Conference Items – November 10-13, 2009.

Staff noted that there were two items for the Board's consideration at the 2009 Fall SACRS Conference. First, the recommendations from the Nominating Committee to change the SACRS election process and second, consideration of a legislative proposal regarding reciprocity from Tulare County.

In terms of the nominating committee recommendation, staff recommended the Board vote to defer action until SACRS determined whether or not the organization would retain a full time Chief Executive Officer.

Ms. Becker moved, seconded by Mr. Henderson, to follow staff's recommendation.

Motion passed.

Staff recommended the Board support the legislative proposal.

Mr. Foy questioned the potential for increased costs due to the recognition of reciprocity between retirement systems.

Ms. Becker moved, seconded by Mr. Matheney, to adopt staff's recommendation.

Motion passed. Mr. Foy opposed.

VI. **OLD BUSINESS** (continued)

B. Status Update – Office Search/Preliminary Lease Negotiations.

Staff informed the Board that a preliminary lease proposal with no rent increase had been received. Additionally, staff informed the Board that one of the properties being considered for purchase, the North Ventura Road property in Oxnard, had been leased.

Mr. Matheney moved, seconded by Mr. Foy, to receive and file staff's update.

Motion passed.

VII. **NEW BUSINESS**

A. Due Diligence Report on Acadian Asset Management Submitted by Arthur E. Goulet.

Ms. Becker moved, seconded by Mr. Matheney, to receive and file the report submitted by Mr. Goulet.

Motion passed.

B. Supplemental Cost-of-Living Benefit (STAR COLA).

Staff provided an update on the STAR COLA projection prepared by The Segal Company that showed that reserve balances will be sufficient to pay full STAR COLA benefits through September 30, 2010.

Mr. Hansen moved, seconded by Mr. Wilson, to receive and file The Segal Company's memorandum.

Motion passed.

C. Staff Report on RREEF America III Shareholder Meeting.

(Considered as part of Section V., Item 6.)

D. Consideration of Canceling the Regularly Scheduled November 2, 2009, Board Meeting.

Staff identified that there would be two to three cases for the Board's consideration on November 2, 2009.

VIII. INFORMATIONAL

- A. Publications (Available in Retirement Office)
 - 1. Institutional Investor
 - 2. Pensions and Investments
- B. Super Bowl of Indexing, December 6-9, 2009, Phoenix.
- C. Capital Guardian Update dated October 6, 2009.
- D. Letter from Sprucegrove Investment Management dated September 30, 2009.

IX. PUBLIC COMMENT

Staff notified the Board regarding the receipt of an email from Ramon Rubalcava stating that SEIU was reconsidering its position on special district status for retirement associations.

X. BOARD MEMBER COMMENT

None.

XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:30 a.m. upon the motion of Mr. Henderson, seconded by Mr. Hoag.

Respectfully submitted,


TIM THONIS, Administrator

Approved,


TRACY TOWNER, Chairman